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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company to Update Pipeline Safety
Enhancement Plan

(U 39 G)

Application No. 13-10-017
(Filed October 29, 2013)

**JOINT MOTION OF SETTLING PARTIES FOR APPROVAL
OF PSEP UPDATE APPLICATION SETTLEMENT
AGREEMENT**

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Dated: July 25, 2014

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I. INTRODUCTION

Pursuant to Rule 12 of the Commission’s Rules of Practice and Procedure, Pacific Gas and Electric Company (“PG&E”), the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”) (hereinafter collectively referred to as the “Settling Parties”)^{1/} hereby submit for Commission review and approval a Settlement Agreement (“Agreement”) resolving the *Application of Pacific Gas and Electric Company to Update Pipeline Safety Enhancement Plan* (“PSEP Update Application”). This Agreement was entered into by the Settling Parties as a compromise in order to minimize the time, expense, and uncertainty of further regulatory proceedings in the PSEP Update Application. Because this Agreement is reasonable in light of the whole record, consistent with law, and in the public interest, the Settling Parties urge the Commission to adopt it without modification.

II. BACKGROUND

A. Decision 11-06-017 and Decision 12-12-030

Commission Decision (“D.”) 11-06-017 required all California gas transmission operators to file a Natural Gas Transmission Pipeline Replacement or Testing Implementation Plan to pressure test or replace all in-service natural gas transmission pipelines that have not

^{1/} In addition, the Northern California Generation Coalition (“NCGC”) does not oppose the PSEP Update Settlement.

previously been pressure tested. The Commission also ordered PG&E to obtain “traceable, verifiable, and complete” records and “complete its Maximum Allowable Operating Pressure determinations based on pipeline features.”^{2/}

PG&E filed its Pipeline Safety Enhancement Plan (“PSEP”) on August 26, 2011, in Rulemaking (“R.”) 11-02-019, proposing a scope of work, revenue requirements, and rates for the 2011-2014 period. In the PSEP, PG&E proposed a Pipeline Modernization program to: (1) pressure test or replace all in-service natural gas transmission pipelines in California that do not have verifiable records of a pressure test; (2) set forth criteria on which pipeline segments are identified for replacement instead of pressure testing; (3) provide a priority-ranked schedule for pressure testing and replacement of pipe not previously pressure tested; and (4) set forth criteria for use in deciding to retrofit pipelines to allow for In-Line Inspection (“ILI”) tools. PG&E developed a Pipeline Modernization Decision Tree that was designed to assess for threats at the pipe segment level. Gas transmission pipe segments were analyzed using the Decision Tree to determine a recommended action, such as strength test, replacement of pipe, or ILI. Each action recommended by the Decision Tree was denoted by an “Action Box.”

PG&E also proposed in its PSEP a Maximum Allowable Operating Pressure (“MAOP”) Validation Project, that consisted of collecting and organizing all pipeline strength tests and pipeline features data necessary to re-calculate the MAOP of gas transmission pipelines and all associated components. In addition, PG&E proposed a Valve Automation Program designed to expand PG&E’s use of automated pipeline isolation valves.

The Commission issued D.12-12-030 on December 28, 2012, approving PG&E’s Decision Tree and the scope of work presented in the PSEP, and adopting program-based upper limits on expense and capital costs to be recovered from customers through 2014.^{3/} The Commission authorized a revenue requirement of \$299,214,000, expense expenditures of

2/ D.11-06-017, Ordering Paragraph (“OP”) 1.

3/ D.12-12-030, Conclusions of Law (“COL”) 9-12, 37.

\$165,000,000, and capital expenditures of \$1,003,800,000 for the 2011-2014 period.^{4/} The Commission also authorized PG&E to file Tier 1 Advice Letters to create: (1) a new rate component titled the “Implementation Plan Rate” in the customer class charge to collect the annual increase in revenue requirement authorized by D.12-12-030; (2) a one-way (downward) Gas Pipeline Expense and Capital Balancing Account to record the difference between forecast and recorded expenses and capital costs authorized by D.12-12-030 from the effective date of the decision; and (3) a balancing account to record the amount of revenues to be collected from ratepayers through the “Implementation Plan Rate” as compared to the adopted revenue requirement.^{5/}

In addition, the Commission ordered PG&E to file an application after the completion of its MAOP Validation Project and records search to present the results of those efforts, and update its authorized revenue requirements and related budgets, consistent with D.12-12-030 (“PSEP Update Application”).^{6/} The Commission subsequently approved PG&E’s request for an extension of time to file the PSEP Update Application, to October 29, 2013. Decision 12-12-030 also provided that the “specific showing that PG&E will be required to provide in its application will be considered in a workshop to be held no later than 90 days from the effective date of this decision.”^{7/} That workshop was held at the Commission on March 26, 2013. PG&E and the parties did not reach agreement at the workshop regarding the filing requirements for the PSEP Update Application. Following the workshop, discussions regarding the requirements for the PSEP Update Application continued among ORA, TURN, the Safety and Enforcement Division (“SED”), and the Energy Division (“ED”). The parties were unable to reach an agreement regarding the scope of the PSEP Update Application. On August 21, 2013, ORA and TURN filed a joint Motion for a Ruling Confirming the Scope of the PSEP Update Application

4/ D.12-12-030, OPs 6 and 7; Attachment E, Tables E-1 through E-4.

5/ *Id.*, OPs 4, 5 and 7.

6/ *Id.*, OP 11.

7/ *Id.*, p. 115.

(“Motion”) in R.11-02-019. PG&E filed a response to that Motion on September 6, 2013. To date, there has been no ruling on that Motion.^{8/}

Decision 12-12-030 also required PG&E to submit quarterly compliance reports including the information set forth in Attachment D to D.12-12-030.^{9/}

B. PG&E’s PSEP Update Application

PG&E filed the PSEP Update Application on October 29, 2013. The Application stated that PG&E proposed to replace approximately 143.3 miles^{10/} of pipeline during the PSEP period of 2011-2014 (a decrease from the 185.7 miles of replacement authorized in D.12-21-030), and strength test approximately 658.1 miles of pipeline during the same PSEP period (a decrease from the 783 miles authorized in D.12-21-030).^{11/} As a result of the proposed reduction in scope, PG&E proposed capital costs of \$766.2 million, expense costs of \$133.7, and an overall PSEP 2012-2014 revenue requirement of \$246,527,000.

The SED audited PG&E’s MAOP Validation Project and the PSEP Update Application in 2013 and 2014. On March 3, 2014, an initial Prehearing Conference was held. The Administrative Law Judge (“ALJ”) and the parties agreed that a schedule for hearings and briefs should not be established until SED prepared and circulated its report to the parties in the proceeding. SED served its report entitled “Safety Review Report of PG&E’s PSEP Update Application” (“SED Report”) on the service list for this proceeding on April 25, 2014. On May 5, 2014, SED held a workshop summarizing the findings in the SED Report, in which

8/ The Settling Parties agree that if the Agreement is adopted by the Commission, that Motion would be rendered moot.

9/ D.12-12-030, OP 10; Attachment D.

10/ As noted in Section III.B of this Joint Motion, Section 4.8 of the Agreement sets forth corrected versions of Tables 2-5 and 2-10 of PG&E’s October 29, 2013 Testimony (which also appear as Tables 1 and 3 in the PSEP Update Application) to more accurately reflect the fact that some of the segment miles shown as being replaced in the PSEP will actually be retired or downrated. The corrected number of miles to be replaced is 121.3.

11/ The PSEP Update Application did not alter the scope, capital, or expense amounts for the Valve Automation Program or the ILI work that PG&E had proposed in the August 26, 2011 PSEP.

PG&E, ORA and TURN actively participated. On May 22, 2014, PG&E served its response to the SED Report on the service list for this proceeding (“PG&E Response”). On June 4, 2014, ORA sent a letter to Liza Malashenko of the SED articulating ORA’s concerns regarding certain conclusions in the SED Report (“ORA Response”).

On May 23, 2014, a second Prehearing Conference was held wherein, among other things, the Settling Parties represented to the presiding ALJ that it was appropriate to explore the possibility of settlement. In response to the Settling Parties’ representations at the May 23, 2014 Prehearing Conference, the ALJ established a schedule for the proceeding which provided time for settlement discussions, with a status report scheduled for July 8, 2014, intervenor testimony due on July 11, 2014, rebuttal testimony due on July 30, 2014, and hearings (if needed) on August 6-8, 2014. On June 6, 2014, PG&E served Supplemental Testimony on the service list to this proceeding addressing ratemaking for PSEP projects that may not be operative by December 31, 2014 (“Supplemental Testimony”).

C. Discovery

Discovery concerning the PSEP Update Application began concurrently with the October 29, 2013 PSEP Update Application filing. Through June 9, 2014, PG&E responded to approximately 115 data requests from ORA and TURN concerning many aspects of PG&E’s PSEP Update Application. In addition, PG&E hosted an informal workshop for all parties to this proceeding and to R. 11-02-019 on November 21, 2013, during which PG&E’s PSEP Update Application witnesses gave an overview of their testimony and answered questions. PG&E, ORA and TURN have also engaged in ongoing technical workshops and meetings concerning the PSEP Update Application.

D. PSEP Update Settlement Negotiations

Settlement discussions began after the May 23, 2014 Prehearing Conference. In addition to several meetings with PG&E witnesses focused on technical aspects of PG&E’s PSEP Update

Application, settlement meetings between PG&E, ORA, and TURN were held on June 4, 2014; June 11, 2014; June 18, 2014; June 24, 2014; and June 26, 2014.^{12/}

A formal Settlement Conference pursuant to Rule 12.1(b) was held on July 8, 2014 after notice to the service list. PG&E, ORA, TURN and the City and County of San Francisco participated in the July 8, 2014 Settlement Conference.

E. Exhibits Included with this Filing

In addition to this Joint Motion, this filing consists of the following materials for the Commission's approval:

Exhibit 1: PSEP Update Application Settlement Agreement; and

Exhibit 1, Appendix 1: Updated Tables E-1 through E-4 to supersede Appendix E to D.12-12-030.

III. DESCRIPTION OF THE SETTLEMENT TERMS

The Agreement resolves PG&E's PSEP Update Application. The Settling Parties request that the Agreement be appended to the Commission's decision in this case. To facilitate the Commission's review, a description of the Agreement follows.

A. Introductory Sections of the Settlement Agreement

After a brief preamble, Section 1 of the Agreement, entitled "The Parties," describes the Settling Parties—PG&E, ORA and TURN—and explains that other intervenors with party status are not parties to the Agreement.

Section II, entitled "Definitions," sets forth definitions for various terms used throughout the Agreement.

Section III, entitled "General Recitals," provides a chronological recitation of general factual information, from PG&E's August 26, 2011 PSEP filing, through the July 8, 2014 Joint Status Report filed in this proceeding.

^{12/} NCGC also participated in some of these settlement meetings.

B. Settlement Agreement Terms and Conditions

Section IV of the Agreement contains the terms and conditions of the Agreement.

Section 4.1 provides that the Settling Parties have agreed that the PSEP expenses to be recovered from ratepayers will be reduced by \$23 million from the \$133.7 million that was proposed in the PSEP Update Application. Pipeline Modernization capital costs will be \$614.9 million, as proposed in the PSEP Update Application. Section 4.1 also provides that PG&E will be authorized to recover a total PSEP revenue requirement of \$223,228,000 for 2012-2014 through the Implementation Plan surcharge approved in D.12-12-030.

For ease of comparison, the tables below set forth: (1) the PSEP revenue requirement adopted in Decision 12-12-030; (2) the PSEP revenue requirement proposed in the PSEP Update Application; and (3) the PSEP revenue requirement presented in the Agreement for the Commission's approval.

PSEP 2012-2014 Revenue Requirement:

Adopted in D. 12-12-030	\$299,214,000
Proposed in PSEP Update Application (A.13-10-017)	\$246,527,000
Proposed in Settlement Agreement	\$223,228,000

Section 4.2 states that PG&E agrees that the Agreement will not change the scope of work it proposed pursuant to the PSEP Update Application. However, the Agreement does not modify PG&E's ability to make "improvements, efficiencies, and adjustments to the Implementation Plan based on sound engineering data and that further the objectives of the Plan," in accordance with D. 12-12-030. Any reduction in the scope of work proposed in the PSEP Update Application would be subject to the requirements of Conclusion of Law ("COL") 37, and Ordering Paragraph ("OP") 6 of D. 12-12-030.

Section 4.3 provides that: "Nothing in this Agreement changes the determinations made in, or the positions taken by, any party with respect to Decision 12-12-030."

Section 4.4 states: “Nothing in this Agreement, either express or implied, should be construed as an agreement among the parties that PG&E’s gas transmission system is safe or that the scope, quality, and prioritization of the PSEP work undertaken by PG&E is reasonable from a safety perspective.”

Section 4.5 concerns the completion of PSEP projects, and provides that the Settling Parties agree that the Commission should order, and PG&E should implement, the ratemaking mechanisms for addressing PSEP projects that become operational after December 31, 2014 as described in PG&E’s Supplemental Testimony, as follows:

- (a) The Settling Parties agree that 2014 PSEP revenues recovered in End-Use customer rates will be reduced for any PSEP capital project^{13/} that will not be operational in 2014; PG&E will return the 2014 revenue reduction to End-Use customers in the Annual Gas True-Up filing (filed at the end of 2014) by crediting the Core Fixed Cost Account and Noncore Customer Class Charge Account consistent with the allocation authorized by Decision 12-12-030.^{14/}
- (b) The cost caps established in Decision 12-12-030, as modified by any Commission decision adopting this Agreement, will remain unchanged and will not be adjusted for PSEP projects that become operational after December 31, 2014. For purposes of this section, a project that was deferred beyond December 31, 2014 and replaced with a higher priority project, pursuant to Conclusion of Law 37 and Ordering Paragraph 6 of Decision 12-12-030, does not constitute a “PSEP project.”
- (c) Notwithstanding subsection (b) above, ORA and TURN reserve their rights to contend in the Gas Transmission and Storage (“GT&S”) Rate Case, A.13-12-012, that certain projects that are included in the GT&S proceeding that are not characterized as PSEP projects in either this proceeding or R.11-02-019, could or should have been included as PSEP projects in the PSEP Update Application. PG&E reserves its right to oppose such a contention.

13/ There will be no revenue requirement adjustment for PSEP expense projects that are not completed at the end of 2014 but that ultimately will be completed. Unlike capital projects, for which revenue requirements are determined in relation to the operational date of the project, the revenue requirements associated with expense projects were determined on a forecast basis, as updated by the decision in this case.

14/ Post-2014 recovery of the ongoing PSEP revenue requirement related to authorized PSEP capital expenditures will be addressed in PG&E’s 2015 Gas Transmission and Storage Rate Case, Application 13-12-012.

- (d) Nothing in this Agreement shall be construed as agreement among the Settling Parties regarding the rationale that PG&E provided in the Supplemental Testimony for these ratemaking mechanisms.

Section 4.6 provides that nothing in the Agreement, either express or implied, should be construed as agreement among the Settling Parties that PG&E's quality assurance and/or quality control processes and procedures as used for the PSEP are reasonable or appropriate.

Section 4.7 concerns the SED Report, and provides that: (a) the Settling Parties agree that the SED Report, PG&E Response, and ORA Response should be included in the record of this proceeding and will separately present a joint motion to enter these documents into the record of this proceeding; and (b) PG&E confirms that it is performing the activities identified as "Action Items" in the PG&E Response to the SED Report.

Section 4.8 of the Agreement sets forth corrected versions of Tables 2-5 and 2-10 of PG&E's October 29, 2013 Testimony (which also appear as Tables 1 and 3 in the PSEP Update Application) to more accurately reflect the fact that some of the segment miles shown in the PSEP Update Application as being replaced in the PSEP will actually be retired or downrated. PG&E has agreed that, for purposes of future reporting or representations to the Commission or elsewhere regarding PSEP, PG&E will show pipeline retirements and downrates separately from pipeline replacements.

Section 4.9 provides that PG&E will serve a final PSEP Report on the service lists for R.11-02-019 and A.13-10-017 within 120 days of the last PSEP project becoming operational, that will be consistent with the form and content of the first quarter 2014 Quarterly Compliance Report (and as set forth in Attachment D to D.12-12-030), with certain exceptions enumerated in Section 4.9 of the Agreement. This section also provides that PG&E will provide ORA and TURN with Excel copies of any tables in the information provided in the final PSEP Report, and that ORA or TURN may make any and all of the information provided pursuant to Section 4.9 publicly available.

Section 4.10 notes that PG&E makes certain representations in the PSEP Update Application regarding the actual costs it claims to have incurred to perform the PSEP projects. PG&E acknowledges in the Agreement that these claims have not been tested through either discovery or cross examination. Section 4.10 provides that nothing in the Agreement, express or implied, should be construed as agreement among the Settling Parties that PG&E's figures regarding actual costs incurred are accurate or complete. In exchange for PG&E's acknowledgment of these facts, within thirty days of the Commission's approval of the Agreement, ORA will withdraw its motion to strike actual costs filed on May 14, 2014.

Section 4.11 includes the Settling Parties' agreement to support approval by the Commission of the Agreement, and to support the Agreement in its entirety before any regulatory agency or court of law where the Agreement, its meaning or effect is an issue. This section also provides that no Settling Party shall take or advocate for, either directly, or indirectly through another entity, any action that would have the effect of modifying or abrogating the terms of the Agreement.

C. General Provisions and Reservations

Section V of the Agreement consists of general provisions and reservations to which the Settling Parties have agreed.

D. Implementation of Settlement Agreement

Section VI of the Agreement concerns the implementation of the Agreement. Section 6.1 provides that the Settling Parties request Commission approval of the capital expenditure, expense and revenue requirement caps presented in Tables E-1 through E-4 of Appendix 1 of the Agreement, which reflect the compromises made in the Agreement. If approved by the Commission, the caps set forth in Appendix 1 to the Agreement will supersede the caps previously established by the Commission and included in Appendix E to D.12-12-030.

Section 6.2 provides that, if a final decision approving the Agreement is issued by the Commission by December 1, 2014, PG&E will true-up the balancing accounts authorized by

OPs 5 and 7 of D.12-12-030 in the Annual Gas True-Up to be filed before the end of 2014.

Section 6.3 provides that, if a final decision approving the Agreement is not issued by the Commission by December 1, 2014, PG&E will perform the true-ups described in Section 6.2 in the next available gas transportation rate change following Commission approval of the Agreement.

IV. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Under Rule 12.1(d) of the Commission's Rules of Practice and Procedure, in order for a settlement to be approved by the Commission, the settlement must be: (1) reasonable in light of the whole record; (2) consistent with law; and (3) in the public interest. The Commission has stated:

In evaluating whether a settlement meets these criteria, we consider a variety of factors, including the strength of the applicant's case, the development of the record, including the extent to which discovery has been completed, whether the major issues are addressed by the settlement, and the reaction and/or support of interested parties.^{15/}

Based on the foregoing criteria, the Settling Parties respectfully submit that the Agreement meets the applicable legal standards, and requests that the Commission approve the Agreement without modification.

A. The PSEP Update Application Settlement Agreement Is Reasonable In Light Of The Whole Record

Several factors support the conclusion that the Agreement is reasonable in light of the whole record. First, the Commission ordered PG&E to file the PSEP Update Application in D.12-12-030, which was a Commission decision based on a fully litigated case in which a broad spectrum of intervenors participated, including ORA, TURN, certain cities and counties, and several customer groups. Therefore, the "record" upon which the Agreement is based is not

15/ D.04-05-055, p. 20.

limited to the record in the PSEP Update Application, but includes the history and voluminous record developed in the course of litigating PG&E's August 26, 2011 PSEP in R.11-02-019.

Second, PG&E's PSEP Update Application has been subject to review by ORA, TURN, and others that was as thorough and comprehensive as their resources and the demands of other pending proceedings allowed. PG&E's PSEP Update Application was accompanied by five chapters of testimony detailing the updated scope, proposed revenue requirements, and proposed rates for PG&E's PSEP. PG&E also submitted three volumes of work papers that included a work paper for each project proposed in the PSEP Update Application, and an updated pipe segment database that showed, in addition to the original data fields used to develop the August 26, 2011 PSEP filing, additional data that show the results of records review and MAOP Validation. PG&E hosted an informal workshop for the parties on the service lists for A.13-10-017 and R.11-02-019 shortly after it filed its PSEP Update Application, at which its witnesses gave an overview of testimony and answered questions. In addition, PG&E has responded to approximately 115 data requests from ORA and TURN in this proceeding, and has participated in several additional informal technical meetings with ORA. In short, every aspect of PG&E's PSEP Update Application—including the engineering details of replacement and strength testing projects, capital and expense forecasts, and technical data from the updated PSEP database—has been reviewed by the other Settling Parties to the best of their abilities within their resource constraints.

Third, the Agreement is based on a significant level of engagement by the active parties—ORA and TURN. These Settling Parties are charged with advocating on behalf of PG&E's customers. Through the discovery and settlement process, there has been a thorough discussion among PG&E, ORA and TURN regarding likely litigation positions, and responses to those positions, in order to come to a compromise settlement. All of this demonstrates that the Agreement is reasonable in light of the whole record.

B. The PSEP Update Application Settlement Agreement Is Consistent With The Law

The Agreement is consistent with the law, in that it complies with all applicable statutes and prior Commission decisions. In particular, the Agreement does not alter the determinations made by the Commission in D.12-12-030. Rather, it simply reduces the authorized expenses for PSEP by \$23 million, as a compromise of the Settling Parties' litigation positions.

C. The PSEP Update Application Settlement Agreement Is In The Public Interest

The Agreement also is in the public interest. It provides for a reasonable disposition and compromise of the issues that otherwise would have been litigated in this proceeding. The Settling Parties' Agreement represents significant compromises of adverse litigation positions that would have been taken by the Settling Parties in the proceeding, and thus will avoid needless and contentious litigation and resources on the part of the parties and the Commission. Furthermore, the Agreement provides for a \$23 million reduction in PSEP expenses from what PG&E proposed in the PSEP Update Application, which itself proposed a \$31.2 million reduction in expenses from the expenses authorized in D.12-12-030. In addition, PG&E has agreed not to reduce the scope of work proposed in the PSEP Update Application due to the agreed-upon \$23 million reduction in PSEP expenses.

Over the course of the last two months, the Settling Parties have engaged in good faith negotiations on every aspect of the PSEP Update Application. None of the Settling Parties obtained precisely the outcome they desired, and all Settling Parties gave up and compromised on significant, strongly-held positions.

V. REQUEST FOR APPROVAL OF THE AGREEMENT BY DECEMBER 1, 2014

The Settling Parties respectfully request that the Commission issue a final decision approving the PSEP Update Application Settlement Agreement by December 1, 2014, so that the reduced revenue requirement in the Agreement can be reflected in rates beginning January 1, 2015. If a final Commission decision approving this Agreement is issued by December 1, 2014,

PG&E can true-up the balances in the balancing accounts authorized in Ordering Paragraphs 5 and 7 of D.12-12-030 in the Annual Gas True-Up that PG&E files at the end of 2014. If a final Commission decision is issued after December 1, 2014, PG&E will perform the true-ups of the balancing accounts and reflect the true-up in rates in the next available gas transportation rate change following Commission approval of the Agreement. So that ratepayers can have the benefit of the lower revenue requirement provided for by the Agreement reflected in rates beginning January 1, 2015, the Settling Parties respectfully request that the Commission issue a final decision approving the PSEP Update Application Settlement Agreement by December 1, 2014.

VI. CONCLUSION

For the foregoing reasons, the Settling Parties respectfully request that the Commission approve the PSEP Update Application Settlement Agreement and associated Tables E-1 through E-4 filed as Appendix 1 to the Agreement without modification, in accordance with the legal standards set forth in Rule 12 of the Commission's Rules of Practice and Procedure.

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Respectfully submitted,

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Dated: July 25, 2014

EXHIBIT 1

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company
(U39G) to Update Pipeline Safety Enhancement
Plan.

**Application 13-10-017
(Filed October 29, 2013)**

**PSEP UPDATE SETTLEMENT AGREEMENT AMONG PACIFIC GAS AND
ELECTRIC COMPANY, THE OFFICE OF RATEPAYER ADVOCATES, AND THE
UTILITY REFORM NETWORK**

**PSEP UPDATE SETTLEMENT AGREEMENT AMONG PACIFIC GAS AND
ELECTRIC COMPANY, THE OFFICE OF RATEPAYER ADVOCATES, AND THE
UTILITY REFORM NETWORK**

Pacific Gas and Electric Company (“PG&E”), the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”) (hereinafter collectively referred to as the “Settling Parties”) agree to settle the *Application of Pacific Gas and Electric Company to Update Pipeline Safety Enhancement Plan* (“PSEP Update Application”), Application 13-10-017, on the following terms and conditions, which shall become effective on the Effective Date (as defined below).

This settlement agreement (“Agreement”) is entered into as a compromise in order to minimize the time, expense, and uncertainty of further regulatory proceedings in the PSEP Update Application. PG&E, ORA and TURN agree to the following terms and conditions as a complete and final resolution of the PSEP Update Application. This Agreement constitutes the sole agreement between the Settling Parties concerning the subject matter of this Agreement.

As explained herein, the Settling Parties shall file a joint motion, pursuant to Rule 12.1(a) of the Commission’s Rules of Practice and Procedure (“Settlement Motion”), requesting California Public Utilities Commission (“Commission” or “CPUC”) approval of this Agreement.

**I.
THE PARTIES**

- 1.1. The parties to this Agreement are PG&E, TURN, and ORA.
- 1.2. PG&E is an investor owned public utility in the State of California and is subject to the jurisdiction of the Commission with respect to providing gas transmission service to its customers in the state of California.
- 1.3. ORA is an independent division of the Commission whose statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, ORA also advocates for customer and environmental protections.
- 1.4. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.
- 1.5. The Northern California Generation Coalition, and the Southern California Generation Coalition have filed motions seeking party status in the PSEP Update Application, but are not parties to this Agreement.

II. DEFINITIONS

- 2.1. **Agreement:** This document and any appendices.
- 2.2. **ALJ:** Presiding Administrative Law Judge Maribeth Bushey.
- 2.3. **Commission or CPUC:** The California Public Utilities Commission.
- 2.4. **Decision Tree:** The Pipeline Program Decision Tree for evaluating manufacturing threats, fabrication and construction threats, and corrosion and latent mechanical damage threats under the PSEP for 2011-2014, as approved by the Commission in Decision 12-12-030, Conclusion of Law 9.
- 2.5. **Effective Date:** The date of issuance of the Commission's decision approving this Agreement.
- 2.6. **MAOP Validation:** A project initiated in 2011 involving collecting and organizing the necessary pipeline strength test and pipeline features data and then validating the Maximum Allowable Operating Pressure ("MAOP") for PG&E's gas transmission pipelines at the feature level, as described in Chapter 5 of PG&E's August 26, 2011 PSEP Testimony in Rulemaking 11-02-019, and Chapter 1 of PG&E's testimony submitted with the PSEP Update Application.
- 2.7. **ORA:** The Office of Ratepayer Advocates or its successor division.
- 2.8. **ORA Response:** ORA's letter dated June 4, 2014 to Liza Malashenko and served on the service list to this proceeding articulating ORA's concerns regarding certain conclusions in the SED Report.
- 2.9. **PG&E:** Pacific Gas and Electric Company.
- 2.10. **PG&E Response:** PG&E's response to the SED Report, served on the service list to this proceeding on May 22, 2014.
- 2.11. **PSEP:** PG&E's Pipeline Safety Enhancement Plan for the period 2011-2014, filed in Rulemaking 11-02-019 on August 26, 2011, in compliance with Decision 11-06-017, and authorized in Decision 12-12-030.
- 2.12. **PSEP Update Application:** Application 13-10-017 filed by PG&E on October 29, 2013, pursuant to Ordering Paragraph 11 of Decision 12-12-030.
- 2.13. **Quarterly Compliance Report(s):** The Quarterly Compliance Reports required by Ordering Paragraph 10 and Attachment D of Decision 12-12-030.
- 2.14. **SED:** The Commission's Safety and Enforcement Division.

- 2.15. **SED Report:** SED's report dated April 25, 2014 entitled "Safety Review Report of PG&E's PSEP Update Application," which was provided to the service list in this proceeding on April 25, 2014.
- 2.16. **Settling Parties/Settling Party:** PG&E, ORA, and TURN, or any of them.
- 2.17. **Supplemental Testimony:** Testimony PG&E served in this proceeding on June 6, 2014 proposing ratemaking treatment for PSEP projects that were originally planned for operation in 2014, but that may not be complete by December 31, 2014.
- 2.18. **TURN:** The Utility Reform Network.

III. GENERAL RECITALS

- 3.1. PG&E filed its PSEP in Rulemaking 11-02-019 on August 26, 2011, pursuant to Decision 11-06-017.
- 3.2. In Decision 12-12-030, the Commission approved PG&E's PSEP (including specific authorized unit costs for PSEP projects) and a total PSEP cost cap of \$1,003.8 million for capital expenditures and \$165 million for expenses.
- 3.3. Ordering Paragraph 11 of Decision 12-12-030 required PG&E to file a PSEP Update Application within 30 days of completion of its MAOP Validation and records search, to present the results of those efforts and update its PSEP authorized revenue requirements and related budgets, consistent with Decision 12-12-030.
- 3.4. PG&E completed its MAOP Validation and records search on July 1, 2013.
- 3.5. With permission from the Commission's Executive Director, PG&E filed its PSEP Update Application on October 29, 2013.
- 3.6. PG&E's PSEP Update Application proposed that its authorized cost caps be reduced to \$766.2 million for capital expenditures and \$133.7 million for expenses.
- 3.7. From October 29, 2013, through June 9, 2014, TURN and ORA conducted discovery regarding the PSEP Update Application and PG&E responded to approximately 115 data request questions propounded by TURN and ORA.
- 3.8. On March 3, 2014 an initial pre-hearing conference was held. The parties and the ALJ agreed that a schedule for hearings and briefs should not be established until SED prepared and circulated the SED Report to the parties in this proceeding.

- 3.9. On April 25, 2014, SED served the SED Report on the service list in this proceeding.
- 3.10. On May 5, 2014 SED held a workshop summarizing the findings in the SED Report. On May 22, 2014, PG&E served the PG&E Response to the SED Report on the service list of this proceeding.
- 3.11. On May 23, 2014, a second pre-hearing conference was held wherein, among other things, the Settling Parties represented to the ALJ that it was appropriate for them to explore the possibility of settlement.
- 3.12. In response to the Settling Parties' representations at the second pre-hearing conference, the ALJ, among other things, established a schedule for the proceeding which provided time for initial settlement discussions, with a status report scheduled for July 8, 2014, intervenor testimony due on July 11, 2014, rebuttal testimony due on July 30, 2014, and hearings (if needed) on August 6-8, 2014.
- 3.13. On June 4, 2014, ORA served the ORA Response to the SED Report on the service list of this proceeding.
- 3.14. On June 6, 2014, PG&E served Supplemental Testimony on the service list to this proceeding addressing PSEP projects that may not be operative by December 31, 2014.
- 3.15. On July 7, 2014, the Settling Parties convened a settlement conference pursuant to Rule 12.1(b) of the Commission's Rules of Practice and Procedure, with notice and opportunity to participate provided to all parties for the purpose of discussing settlement in this proceeding.
- 3.16. On July 8, 2014, the Settling Parties filed a Joint Status Report in this proceeding, informing the ALJ that the Settling Parties had reached an agreement in principle, which the Settling Parties expected to present for Commission approval by July 25, 2014.

IV. SETTLEMENT AGREEMENT TERMS AND CONDITIONS

4.1. PG&E Adjustment Of Expenses By \$23 Million

The Settling Parties have agreed that the PSEP expenses to be recovered from ratepayers will be reduced by \$23 million from the \$133.7 million that was proposed in the PSEP Update Application. Pipeline Modernization capital costs will be \$614.9 million, as proposed in the PSEP Update Application. PG&E will be authorized to recover a total PSEP revenue requirement of \$223,228,000 for 2012-2014 through the Implementation Plan surcharge approved in Decision 12-12-030.

Provided as Appendix 1 to this agreement are Updated Tables E-1 through E-4, updated to show the capital, expense, and revenue requirement caps presented in this Agreement for the Commission's approval.

The table below sets forth: (1) the PSEP revenue requirement adopted in Decision 12-12-030; (2) the PSEP revenue requirement proposed in the PSEP Update Application; and (3) the PSEP revenue requirement presented in this Agreement for the Commission's approval.

PSEP 2012-2014 Revenue Requirement:

Adopted in D. 12-12-030	\$299,214,000
Proposed in PSEP Update Application (A.13-10-017)	\$246,527,000
Proposed in Settlement Agreement	\$223,228,000

4.2. PG&E's Scope Of Work Will Not Be Reduced As A Result Of This Agreement

PG&E agrees that this Agreement will not change the scope of work it proposed pursuant to the PSEP Update Application. This Agreement does not modify PG&E's ability to make "improvements, efficiencies, and adjustments to the Implementation Plan based on sound engineering data and that further the objectives of the Plan," in accordance with Decision 12-12-030, p. 84. Any reduction in the scope of work proposed in the PSEP Update Application would be subject to the requirements of Conclusion of Law 37, and Ordering Paragraph 6 of Decision 12-12-030.

4.3. Decision 12-12-030

Nothing in this Agreement changes the determinations made in, or the positions taken by, any party with respect to Decision 12-12-030.

4.4. No Representations Regarding Safety

Nothing in this Agreement, either express or implied, should be construed as an agreement among the parties that PG&E's gas transmission system is safe or that the scope, quality, and prioritization of the PSEP work undertaken by PG&E is reasonable from a safety perspective.

4.5. Completion Of PSEP Projects

In its Supplemental Testimony, PG&E explains that all of the PSEP projects planned for release to operations in 2014 may not become operational by December 31, 2014.

The Parties agree that the Commission should order, and PG&E should implement, the ratemaking mechanisms for addressing PSEP projects that become operational after December 31, 2014 as described in PG&E's Supplemental Testimony, as follows:

- (a) The Settling Parties agree that 2014 PSEP revenues recovered in End-Use customer rates will be reduced for any PSEP capital project^{1/} that will not be operational in 2014; PG&E will return the 2014 revenue reduction to End-Use customers in the Annual Gas True-Up filing (filed at the end of 2014) by crediting the Core Fixed Cost Account and Noncore Customer Class Charge Account consistent with the allocation authorized by Decision 12-12-030.^{2/}
- (b) The cost caps established in Decision 12-12-030, as modified by any Commission decision adopting this Agreement, will remain unchanged and will not be adjusted for PSEP projects that become operational after December 31, 2014. For purposes of this section, a project that was deferred beyond December 31, 2014 and replaced with a higher priority project, pursuant to Conclusion of Law 37 and Ordering Paragraph 6 of Decision 12-12-030, does not constitute a "PSEP project."
- (c) Notwithstanding subsection (b) above, ORA and TURN reserve their rights to contend in the Gas Transmission and Storage ("GT&S") Rate Case, A.13-12-012, that certain projects that are included in the GT&S proceeding that are not characterized as PSEP projects in either this proceeding or R.11-02-019, could or should have been included as PSEP projects in the PSEP Update Application. PG&E reserves its right to oppose such a contention.
- (d) Nothing in this Agreement shall be construed as agreement among the Settling Parties regarding the rationale that PG&E provided in the Supplemental Testimony for these ratemaking mechanisms.

4.6. Quality Assurance and Quality Control

Nothing in this Agreement, either express or implied, should be construed as agreement among the Settling Parties that PG&E's quality assurance and/or quality control processes and procedures as used for the PSEP are reasonable or appropriate.

-
- 1/ There will be no revenue requirement adjustment for PSEP expense projects that are not completed at the end of 2014 but that ultimately will be completed. Unlike capital projects, for which revenue requirements are determined in relation to the operational date of the project, the revenue requirements associated with expense projects were determined on a forecast basis, as updated by the decision in this case.
 - 2/ Post-2014 recovery of the ongoing PSEP revenue requirement related to authorized PSEP capital expenditures will be addressed in PG&E's 2015 Gas Transmission and Storage Rate Case, Application 13-12-012.

4.7. Issues Related to the SED Report

- (a) The Settling Parties agree that the SED Report, PG&E Response, and ORA Response should be included in the record of this proceeding and will separately present a joint motion to enter these documents into the record of this proceeding.
- (b) PG&E confirms that it is performing the activities identified as “Action Items” in the PG&E Response.

4.8. Correction To Tables 2-5 and 2-10 In The PSEP Update Application Testimony

PG&E agrees that the information in Tables 2-5 and 2-10 of its October 29, 2013 Testimony (which also appear as Tables 1 and 3 in the PSEP Update Application) does not reflect that some of the segment miles shown as being replaced in the PSEP will actually be retired or downrated. To accurately reflect this fact, Tables 2-5 and 2-10 should instead read as follows, using the following format that separately breaks out segment miles to be retired or downrated:

TABLE 2-5
PACIFIC GAS AND ELECTRIC COMPANY
GAS TRANSMISSION PIPELINE MODERNIZATION PROGRAM UPDATE
PSEP PIPE REPLACEMENT – VALIDATED SCOPE CHANGES

Line No.	Number of Miles	Reason for Scope Change
1	185.7	Filed segment miles to be replaced
2	(33.2)	Filed segment miles cleared (valid test record)
3	(22.0)	Filed segment miles from replacement to strength test
4	(24.5)	Filed segment miles deferred beyond Phase 1 (Class 1 and 2 non-adjacent)
5	(8.5)	Filed segment miles deferred beyond Phase 1 (Class 3)
6	(2.2)	Filed segment miles addressed outside of PSEP
7	19.2	Segment miles from strength test to replacement
8	5.6	Segment miles from strength test to retirement
9	0.1	Segment miles from strength test to downrate
10	15.4	Segment miles not included in August 2011 PSEP filing, but are now Phase 1 replacement
11	1.5	Segment miles not included in August 2011 PSEP filing, but are now Phase 1 retirement
12	6.2	Segment miles not included in August 2011 PSEP filing, but are now Phase 1 downrate
13	143.3	Total updated capital segment miles in PSEP Phase 1 (includes replacement, retirement and downrates)
14	5.6	Validated segment miles from strength test to retirement
15	1.5	Validated segment miles not included in August 2011 PSEP filing, but are now Phase 1 retirement
16	2.8	Validated segment miles from PSEP replacement to retirement
17	9.9	Validated PSEP segment miles to be retired
18	0.1	Validated segment miles from strength test to downrate
19	6.2	Validated segment miles not included in August 2011 PSEP filing, but are now Phase 1 downrate
20	5.8	Validated segment miles from PSEP replacement to downrate
21	12.1	Validated PSEP segment miles to be downrated
22	121.3	Total updated segment miles to be replaced in PSEP Phase 1 (excludes retirements and downrates)

TABLE 2-10
PACIFIC GAS AND ELECTRIC COMPANY
GAS TRANSMISSION PIPELINE MODERNIZATION PROGRAM UPDATE
PSEP PHASE 1 PIPELINE STRENGTH TESTS – VALIDATED SCOPE CHANGES

Line No.	Number of Miles	Reason for Scope Change
1	783.0	Filed segment miles to be strength tested
2	(162.0)	Filed segment miles cleared (valid test record)
3	(19.2)	Filed segment miles from strength test to replacement
4	(5.6)	Filed segment miles from strength test to retirement
5	(0.1)	Filed segment miles from strength test to downrate
6	(58.5)	Filed segment miles deferred beyond Phase 1 (Class 1 and 2 non-adjacent)
7	(14.0)	Filed segment miles deferred beyond Phase 1 (test record met code, but not PSEP)
8	(13.5)	Filed segment miles deferred beyond Phase 1 (Class 3)
9	(3.0)	Filed segment miles addressed outside of PSEP
10	22.0	Segment miles from replacement to strength test
11	129.0	Segment miles not included in August 2011 PSEP filing, but now meet Phase 1 strength test criteria
12	658.1	Total updated segment miles to be strength tested in PSEP Phase 1

For purposes of all future reporting or representations to the Commission or elsewhere regarding PSEP, PG&E shall show pipeline retirements and downrates separately from pipeline replacements.

4.9. Final PSEP Report

PG&E shall serve a Final PSEP Report on the service lists for Rulemaking 11-02-019 and this proceeding within 120 days of the last PSEP project becoming operational. The Final PSEP Report will be consistent with the form and content of the first quarter 2014 Quarterly Compliance Report (and as set forth in Attachment D to Decision 12-12-030) except as follows, or as directed by SED or the Commission:

- (a) All data provided will be final values as of the date of the Final PSEP Report, not subject to later modification;
- (b) With regard to the questions set forth in Attachment D of Decision 12-12-030:
 - (i) For questions 1 through 10, PG&E may provide either or both of the following abbreviated answers: (a) PG&E may refer to responses provided in prior Quarterly Compliance Reports; or (b) PG&E may refer to its response to Question 17 in the Final PSEP Report.
 - (ii) Where PG&E has material new information it has obtained since its preparation of the last Quarterly Compliance Report in response to any question, PG&E shall provide this information in the Final PSEP Report.

- (iii) The summary of Project Management Office costs required by Question 7 shall be provided as a final figure as of the date of the Final PSEP Report.
 - (iv) The response to Question 17 regarding lessons learned shall provide a high level overview of the topics addressed in Questions 1 through 10, and particularly Question 7, of the Quarterly Compliance Reports.
 - (v) The responses to Questions 12 and 13 may be “Not Applicable” except in the event PG&E has material new information.
 - (vi) A response of “None” for Question 19 is appropriate if supported by the cost data in Table 11-1.
- (c) All data provided in the Final PSEP Report will be for the entire duration of the PSEP, from inception through completion;
 - (d) Downrates, retirements, and replacements will be reported separately consistent with Section 4.8 above;
 - (e) Tables 14-1 and 26-1 will include all data fields currently included in Table 11-1;
 - (f) Tables 11-1, 14-1, and 26-1 currently provided in the Quarterly Compliance Reports will include the following project lengths in units of feet: PFL footage of the forecasted project, design length, and installed footage.

PG&E will provide ORA and TURN with Excel copies of any tables included in the Final PSEP Report and PG&E agrees that ORA or TURN may make any and all of the information provided pursuant to this Section publicly available.

4.10. PG&E Testimony Regarding Actual Costs

PG&E makes certain representations in the PSEP Update Application regarding the actual costs it claims to have incurred to perform the PSEP projects. PG&E acknowledges that these claims have not been tested through either discovery or cross examination. Nothing in this Agreement, express or implied, should be construed as agreement among the Settling Parties that PG&E’s figures regarding actual costs incurred are accurate or complete. In exchange for PG&E’s acknowledgment of these facts, ORA will withdraw its motion to strike actual costs filed on May 14, 2014, within thirty days of Commission approval of this Agreement.

4.11. Support For This Agreement

In consideration of the mutual obligations, promises, covenants and conditions contained herein, the Settling Parties agree to support approval by the Commission of this Agreement, as further described herein, and to support this Agreement in its entirety before any regulatory agency or court of law where this Agreement, its meaning or effect is an issue, and no Settling Party shall take or advocate for, either directly, or indirectly through another entity, any action that would have the effect of modifying or abrogating

the terms of this Agreement. The Settling Parties will file a Joint Motion for Approval of this Agreement (“Settlement Motion”).

**V.
GENERAL PROVISIONS AND RESERVATIONS**

The Settling Parties further acknowledge and agree as follows:

5.1. Complete Package

This Agreement is to be treated as a complete package, not as a collection of separate agreements on discrete issues or proceedings.

5.2. Modifications by Commission

In the event the Commission rejects or modifies this Agreement, the Settling Parties reserve their rights under Rule 12.4 of the Commission’s Rules of Practice and Procedure to terminate or renegotiate this Agreement.

5.3. Commission’s Primary Jurisdiction

The Commission has primary jurisdiction over any interpretation, enforcement, or remedies regarding this Agreement and no Settling Party may bring an action regarding this Agreement in any State or Federal court or before another administrative agency without having first exhausted its administrative remedies at the Commission.

5.4. Further Actions

This Agreement is subject to approval by the Commission and as soon as practicable after all Settling Parties have signed the Agreement, the Settling Parties, through their respective attorneys, will prepare and file the Settlement Motion. The Settling Parties will furnish such additional information, documents, or testimonies as the Commission may require for purposes of granting the Settlement Motion and approving and adopting the Agreement, and shall support and mutually defend the Agreement in its entirety until the Commission has issued final approval of the Agreement.

5.5. Voluntary and Knowing Acceptance

Each Settling Party acknowledges and stipulates that it is agreeing to this Agreement freely, voluntarily, and without any fraud, duress, or undue influence by any other Settling Party. Each Settling Party has read and fully understands its rights, privileges, and duties under this Agreement, including its right to discuss this Agreement with its legal counsel, which has been exercised to the extent deemed necessary.

5.6. No Modification

This Agreement constitutes the entire understanding and agreement of the Settling Parties regarding the matters set forth herein, which may not be altered, amended, or modified in

any respect except in writing and with the express written and signed consent of all the Settling Parties hereto. All prior oral or written agreements, settlements, principles, negotiations, statements, representations, or understandings whether oral or in writing and regarding any matter set forth in this Agreement, are expressly waived and have no further force or effect.

5.7. No Reliance

None of the Settling Parties has relied or presently relies on any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Agreement. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such Settling Party or its authorized representative.

5.8. Counterparts

This Agreement may be executed in counterparts by the different Settling Parties hereto and all counterparts so executed will be binding and have the same effect as if all the Settling Parties had signed one and the same document. All such counterparts will be deemed to be an original and together constitute one and the same Agreement.

5.9. Binding upon Full Execution

This Agreement will become effective and binding on each of the Settling Parties as of the Effective Date. However, the provisions of Sections 4.7, 4.11 and 5.4 of this Agreement shall impose obligations on the Settling Parties immediately upon execution of this Agreement by all of the Settling Parties. This Agreement will also be binding upon each of the Settling Parties' respective successors, subsidiaries, affiliates, representatives, agents, officers, directors, employees, and personal representatives, whether past, present, or future.

5.10. Commission Adoption Not Precedential

Commission approval and adoption of this Agreement does not constitute approval of or precedent regarding any principle or issue of law or fact in this or any other current or future proceeding.

5.11. Enforceability

After issuance of a Commission decision approving and adopting this Agreement, the Commission may reassert jurisdiction and reopen this proceeding to enforce the terms and conditions of this Agreement.

5.12. No Admission

Unless expressly stated herein, nothing in this Agreement or related negotiations may be construed as an admission of any law or fact by any of the Settling Parties, or as precedential or binding on any Settling Party in any other proceeding whether before the Commission, in any court, or in any other state or federal administrative agency. Further,

unless expressly stated herein this Agreement does not constitute an acknowledgement, admission, or acceptance by any Settling Party regarding any issue of law or fact in this matter, or the validity or invalidity of any particular method, theory, or principle of ratemaking or regulation in this or any other proceeding.

5.13. Authority to Sign

Each Settling Party executing this Agreement represents and warrants to the other Settling Parties that the individual signing this Agreement and the related Settlement Motion has the legal authority to do so on behalf of the Settling Party.

5.14. Limited Admissibility

Each Settling Party signing this Agreement agrees and acknowledges that this Agreement will be admissible in any subsequent Commission proceeding but only for the limited purpose of reflecting or enforcing the Terms and Conditions of this Agreement.

5.15. Estoppel or Waiver

Unless expressly stated herein, the Settling Parties' execution of this Agreement is not intended to provide any of the Settling Parties in any manner a basis of estoppel or waiver in this or any other proceeding.

**VI.
IMPLEMENTATION OF SETTLEMENT AGREEMENT**

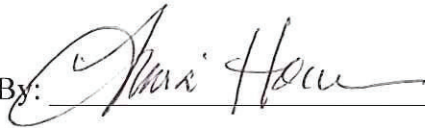
6.1. The Settling Parties request that the Commission approve the capital expenditure caps, expense caps, and revenue requirement caps presented in Tables E-1 through E-4 of Appendix 1 of this Agreement, which are based on the compromises made in this Agreement. The caps proposed in Appendix 1 to this Agreement will supersede the caps previously determined by the Commission and included in Appendix E to Decision 12-12-030.

6.2. If a final decision approving this Agreement is issued by the Commission by December 1, 2014, PG&E will: (1) return any accumulated balance on December 31, 2014 in the Gas Pipeline Expense and Capital Balancing Account to customers through the Customer Class Charge in the Annual Gas True-Up filing to be made before the end of 2014, in accordance with Ordering Paragraph 5 of Decision 12-12-030 and PG&E's Preliminary Statement CW; and (2) collect from, or refund to customers, the balance in the Core Gas Pipeline Safety Balancing Account and Noncore Gas Pipeline Safety Balancing Account on December 31, 2014 in the Annual Gas True-Up filing to be made before the end of 2014, in accordance with Ordering Paragraph 7 of Decision 12-12-030, and PG&E's Preliminary Statements CX and CY.

6.3. If a final decision approving this Agreement is not issued by the Commission by December 1, 2014, PG&E will perform the true-ups described in Section 6.2 above in the next available gas transportation rate change following Commission approval of this Agreement.

**VII.
EXECUTION**

IN WITNESS WHEREOF, the Settling Parties have duly executed this Agreement. This Agreement is executed in three counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the party represented.

<p>OFFICE OF RATEPAYER ADVOCATES</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: <u>Acting Director, Office of Ratepayer</u> <u>Advocates</u></p> <p>Date: _____</p>	<p>PACIFIC GAS & ELECTRIC COMPANY</p> <p>By: <u></u></p> <p>Name: <u>Trina Horner</u></p> <p>Title: <u>Vice President, Regulatory Proceedings</u> <u>and Rates</u></p> <p>Date: <u>7/24/14</u></p>
<p>THE UTILITY REFORM NETWORK</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: _____</p> <p>Date: _____</p>	

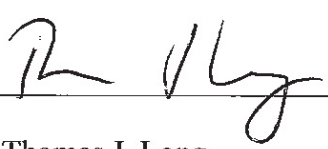
**VII.
EXECUTION**

IN WITNESS WHEREOF, the Settling Parties have duly executed this Agreement. This Agreement is executed in three counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the party represented.

OFFICE OF RATEPAYER ADVOCATES By: <u>K Paul for Joe Como</u> Name: <u>Joseph P. Como</u> Title: <u>Acting Director, Office of Ratepayer</u> <u>Advocates</u> Date: <u>7/23/14</u>	PACIFIC GAS & ELECTRIC COMPANY By: _____ Name: <u>Trina Horner</u> Title: <u>Vice President, Regulatory Proceedings</u> <u>and Rates</u> Date: _____
THE UTILITY REFORM NETWORK By: _____ Name: <u>Thomas J. Long</u> Title: <u>Legal Director, TURN</u> Date: _____	

**VII.
EXECUTION**

IN WITNESS WHEREOF, the Settling Parties have duly executed this Agreement. This Agreement is executed in three counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the party represented.

<p>OFFICE OF RATEPAYER ADVOCATES</p> <p>By: _____</p> <p>Name: <u>Joseph P. Como</u></p> <p>Title: <u>Acting Director, Office of Ratepayer Advocates</u></p> <p>Date: _____</p>	<p>PACIFIC GAS & ELECTRIC COMPANY</p> <p>By: _____</p> <p>Name: <u>Trina Horner</u></p> <p>Title: <u>Vice President, Regulatory Proceedings and Rates</u></p> <p>Date: _____</p>
<p>THE UTILITY REFORM NETWORK</p> <p>By: <u></u></p> <p>Name: <u>Thomas J. Long</u></p> <p>Title: <u>Legal Director, TURN</u></p> <p>Date: <u>7/23/14</u></p>	

Appendix 1

Table E-1
Pacific Gas and Electric Company
Implementation Plan Update Settlement Revenue Requirements
2011-2014

(\$ in thousands)

Line No.	Revenue Requirement	2011	2012	2013	2014	Total
1	Capital-Only Revenue Requirement	—	\$7,253	\$33,911	\$76,790	\$117,954
2	Expense-Only Revenue Requirement		\$79,399	\$58,981	\$50,697	\$189,077
3	Total	—	\$86,653	\$92,892	\$127,487	\$307,032
4	Disallowance of months in 2012		-\$83,804			
5	Decision Increase in Revenue Req.		\$2,849	\$92,892	\$127,487	<u><u>\$223,228</u></u>

Note - Disallowance based on effective date of decision

TABLE E-2 Program Expenses
PACIFIC GAS and ELECTRIC COMPANY
UPDATE SETTLEMENT EXPENSES (w/escalation adjustment)
(\$ IN MILLIONS)

Line No.	Description	2011(a)	2012(b)	2013	2014	Total
1	Pipeline Modernization Program	0.0	2.3	50.8	42.1	95.3
2	Valve Automation Program	0.0	0.1	3.0	3.6	6.7
3	Pipeline Records Integration Program	0.0	0.0	0.0	0.0	0.0
4	Interim Safety Enhancement Measure:	0.0	0.0	1.1	1.0	2.1
5	Program Management Office	0.0	0.1	3.3	3.2	6.6
6	Contingency	0.0	0.0	0.0	0.0	0.0
7	Total Expenses	\$0.0	\$2.6	\$58.2	\$50.0	\$110.8

Note: Differences due to rounding.

(a) The 2011 expenses will be funded by shareholders, as described in Chapter 8.

(b) The 2012 expenses will be funded by shareholders until effective date of decision.

TABLE E-3
PACIFIC GAS and ELECTRIC COMPANY
UPDATE SETTLEMENT CAPITAL Expenditures (w/escalation adjustment)
(\$ IN MILLIONS)

Line No.	Description	2011(a)	2012	2013	2014	Total
1	Pipeline Modernization Program	25.3	148.6	296.0	145.0	614.9
2	Valve Automation Program	13.7	38.9	51.6	24.8	129.0
3	Pipeline Records Integration Progr	0.0	0.0	0.0	0.0	0.0
4	Interim Safety Enhancement Meas	0.0	0.0	0.0	0.0	0.0
5	Program Management Office	3.0	6.5	6.5	6.3	22.3
6	Contingency	0.0	0.0	0.0	0.0	0.0
7	Total Capital Expenditures	\$42.0	\$194.0	\$354.1	\$176.0	\$766.2

Note: Differences due to rounding.

Note: Adopted Revenue Requirement includes 2011 and 2012 adjustments associated with authorized capital expenditures.

**Table E-4 - Update Settlement Combined Expense and Capital
w/Escalation Adjustment
(\$ IN MILLIONS)**

Line No.	Description	2011(a)	2012 (b)	2013	2014	Total
1	Pipeline Modernization Program	25.3	151.0	346.8	187.1	710.2
2	Valve Automation Program	13.7	39.0	54.6	28.4	135.7
3	Pipeline Records Integration Program	0.0	0.0	0.0	0.0	0.0
4	Interim Safety Enhancement Measures	0.0	0.0	1.1	1.0	2.1
5	Program Management Office	3.0	6.6	9.8	9.5	29.0
6	Contingency	0.0	0.0	0.0	0.0	0.0
7	Total Cost	\$42.0	\$196.6	\$412.3	\$226.0	\$877.0

Note: Differences due to rounding.

(a) The 2011 expenses will be funded by shareholders, as described in Chapter 8.

(b) The 2012 expenses will be funded by shareholders until effective date of decision.